

ORIGINAL



0000122242

MEMORANDUM

RECEIVED

2011 JAN 25 P 3:56

TO: Docket Control

FROM: Steve M. Olea
Director
Utilities Division

AT THE OFFICE OF THE COMMISSION
DOCKET CONTROL

DATE: January 26, 2011

RE: STAFF REPORT IN THE MATTER OF THE APPLICATION OF OAK CREEK WATER COMPANY NO. 1 FOR APPROVAL OF AUTHORITY TO ISSUE LONG TERM PROMISSORY NOTES OR BONDS AND OTHER EVIDENCE OF INDEBTEDNESS (DOCKET NO. W-01392A-09-0273)

Attached is the Staff Report for Oak Creek Water Company No. 1's application for authority to issue long-term indebtedness. Staff recommends authorization to incur debt for a reduced amount.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 7, 2011.

SMO:JCM:kdh

Originator: Juan C. Manrique

Attachment: Original and thirteen copies

Arizona Corporation Commission
DOCKETED

JAN 26 2011

DOCKETED BY 

Service List for: Oak Creek Water Company No. 1
Docket No. W-01392A-09-0273

Mr. Patrick Black
Fennemore Craig, P.C.
3003 N. Central, Ste. 2600
Phoenix, AZ 85012-2913

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**


**OAK CREEK WATER COMPANY NO. 1
DOCKET NO. W-01392A-09-0273**

**APPLICATION FOR AUTHORITY TO ISSUE
LONG-TERM INDEBTEDNESS**

JANUARY 26, 2011

STAFF ACKNOWLEDGMENT

The Staff Report for Oak Creek Water Company No. 1, Docket No. W-01392A-09-0273 is the responsibility of the Staff members listed below. Juan C. Manrique is responsible for the financial analysis. Dorothy Hains is responsible for the engineering review.



JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I



DOROTHY HAINS
UTILITIES ENGINEER – WATER/WASTEWATER

EXECUTIVE SUMMARY
OAK CREEK WATER COMPANY NO. 1
DOCKET NO. W-01392A-09-0273

On May 29, 2009, Oak Creek Water Company No. 1 ("Oak Creek" or "Company") filed an application with the Arizona Corporation Commission ("Commission") asking for authorization to issue evidence of indebtedness through the Water Infrastructure Finance Authority of Arizona ("WIFA") in an amount not to exceed \$804,190. On January 12, 2010, the Company filed an amended application requesting a change in the amount of indebtedness to an amount not to exceed \$871,076 due to a change in project costs. On March 31, 2010, Oak Creek filed an amended application requesting a change in the amount of indebtedness to an amount not to exceed \$911,706.

Oak Creek is a member-owned, non-profit Class "C" Arizona public service corporation that operates a public water utility in its certificated area within portions of Yavapai County, Arizona. The Company seeks a loan from WIFA. The Company expects a 20-year amortizing loan at 6.60 percent per annum. The purpose of Oak Creek's request for indebtedness is to pay for the cost of improvements to its existing water system, which includes a new storage tank and an 8-inch main extension, the installation of a solar system to serve the Company's wells as well as a Supervisory Control and Data Acquisition System ("SCADA").

As of December 31, 2009, Oak Creek's capital structure consisted of 0.0 percent debt and 100.0 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$911,706 20-year amortizing loan at 6.60 percent per annum, and it is composed of 1.3 percent short-term debt, 49.5 percent long-term debt and 49.3 percent equity. Staff also calculated a pro forma debt service coverage ratio ("DSC") of 0.60. The DSC results show that cash flow from operations is not sufficient to cover all obligations.

However, Staff also calculated that the Company could obtain a \$440,000 loan resulting in a pro forma 1.25 DSC and have sufficient cash flow from operations to cover all obligations. Under this scenario, the Company's capital structure is composed of 0.8 percent short-term debt, 32.4 percent long-term debt and 66.8 percent equity. This scenario precludes the Company from completing all three projects proposed in this application. Therefore, Staff has prioritized the three projects in order to allocate the available loan funds to the most beneficial projects first. Staff has determined that the storage tank and 8-inch main line extension should be given first priority. Since the cost of these first priority projects is approximately \$470,000, the Company would need a non-debt source for the anticipated \$30,000 (\$470,000 - \$440,000) funds shortfall to complete these first priority projects.

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable. However, no "used and useful" determination of the proposed projects was made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff further concludes that issuance of debt financing in the amount of \$440,000 and for the purposes (a storage tank and 8-inch main line extension) recommended by Staff in this report is within Oak Creek's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$440,000 pursuant to a loan agreement with WIFA.

Staff further recommends that the Commission authorize Oak Creek to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with the WIFA loan.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2013.

Staff further recommends authorizing Oak Creek to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Oak Creek file with Docket Control as a compliance item in this docket by May 31, 2012, a copy of the Certificate of Approval of Construction issued by Arizona Department of Environmental Quality for the proposed capital improvements.

Staff further recommends that one copy of executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

Staff recommends that the Company file, within 120 days of the effective date of the order in this matter, a letter verifying that the Company has contacted the FAA regarding the solar power project and the result of any discussions with the FAA regarding the project.

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|--------------------|
| INTRODUCTION | 1 |
| PUBLIC NOTICE | 1 |
| BACKGROUND..... | 1 |
| COMPLIANCE | 1 |
| PURPOSE AND DESCRIPTION OF THE REQUESTED APPROVAL..... | 1 |
| ENGINEERING ANALYSIS | 1 |
| FINANCIAL ANALYSIS | 2 |
| DSC | 2 |
| CAPITAL STRUCTURE | 2 |
| CAPITAL STRUCTURE INCLUSIVE OF AIAC AND CIAC | 3 |
| ENCUMBRANCE | 3 |
| CONCLUSION AND RECOMMENDATIONS..... | 3 |

SCHEDULES

| | |
|--------------------------|-------|
| FINANCIAL ANALYSIS | JCM-1 |
|--------------------------|-------|

ATTACHMENTS

| | |
|--------------------------------|---|
| ENGINEERING REPORT..... | A |
| AFFIDAVIT OF PUBLICATION | B |

Introduction

On May 29, 2009, Oak Creek Water Company No. 1 ("Oak Creek" or "Company") filed an application with the Arizona Corporation Commission ("Commission") asking for authorization to issue evidence of indebtedness through the Water Infrastructure Finance Authority of Arizona ("WIFA") in an amount not to exceed \$804,190. On January 12, 2010, the Company filed an amended application requesting a change in the amount of indebtedness to an amount not to exceed \$871,076 due to a change in project costs. On March 31, 2010, Oak Creek filed an amended application requesting a change in the amount of indebtedness to an amount not to exceed \$911,706.

Public Notice

On April 26, 2010 the Company filed an affidavit of publication verifying public notice of its financing application. The Company published notice of its financing application in the *Sedona Red Rock News* on April 14, 2010. The *Sedona Red Rock News* is a newspaper of general circulation in the County of Yavapai, Arizona. The affidavit of publication is attached along with a copy of the Notice.

Background

Oak Creek is a member-owned, non-profit Class "C" Arizona public service corporation located in Sedona, Arizona. Oak Creek owns and operates a public water utility in its certificated area within portions of Yavapai County, Arizona.

Compliance

A check of the Compliance Database indicates that there are currently no delinquencies for Oak Creek Water Company No. 1. The company "is in Compliance" with the ACC at this time.

Purpose and Description of the Requested Approval

The purpose of Oak Creek's request for indebtedness is to pay for the cost of improvements to its existing water system, which includes a new storage tank and an 8-inch main extension, the installation of a solar system to serve the Company's wells as well as a Supervisory Control and Data Acquisition System ("SCADA").

Engineering Analysis

The Staff Engineering Memorandum is attached. Staff reviewed the material cost estimates of the Company's proposed capital improvements. Staff concludes that Oak Creek's cost estimates in the project budget seem reasonable and appropriate. Staff makes no "used and useful" determination of the proposed improvements and no conclusions are made for rate base

or ratemaking purposes. In the event the amount recommended in Staff's financial analysis is not sufficient to complete all three of the projects proposed in this application, Staff recommends that Project # 1 Floating System (which includes the storage tank and 8-inch main line extension) be given first priority.

Financial Analysis

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects financial information based on the year ended December 31, 2009. Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a 20-year, \$911,706 amortizing loan at 6.60 percent per annum. Column [C] presents pro forma financial information that modifies Column [A] to reflect issuance of a 20-year, \$440,000 amortizing loan at 6.60 per annum.

DSC

Debt service coverage ratio ("DSC") represents the number of times internally-generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended December 31, 2009, the Company's DSC was not meaningful. The pro forma DSC for the Company under the scenario described above for Column [B] is 0.60. The pro forma DSC results show that cash flow from operations is not sufficient to cover all obligations with the Company's proposed debt issuance and use of funds.

However, Staff also calculated that the Company could obtain a \$440,000 loan resulting in a pro forma 1.25 DSC and have sufficient cash flow from operations to cover all obligations (Schedule JCM-1, Column [C]). This scenario precludes the Company from completing all three projects proposed in this application. Therefore, Staff has prioritized the three projects in order to allocate the available loan funds to the most beneficial projects first. Staff has determined that the storage tank and 8-inch main line extension should be given first priority. Since the cost of these first priority projects is approximately \$470,000, the Company would need a non-debt source for the anticipated \$30,000 (\$470,000 - \$440,000) funds shortfall to complete these first priority projects. It should be noted that if contingencies are reduced enough, there may not be a \$30,000 shortfall.

Capital Structure

At December 31, 2009, the Company's capital structure consisted of 0.0 percent short-term debt, 0.0 percent long-term debt and 100.0 percent equity (Schedule JCM-1, Column [A], lines 19-25). Issuance of a \$440,000, 20-year amortizing loan results in a pro forma capital

structure composed of 0.8 percent short-term debt, 32.4 percent long-term debt and 66.8 percent equity (Schedule JCM-1, Column [C], lines 19-25)

Capital Structure inclusive of AIAC and CIAC

At December 31, 2009, the Company's capital structure, inclusive of Advances In Aid of Construction ("AIAC") and Net Contributions In Aid of Construction ("CIAC")¹, consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, 97.2 percent equity, 0.0 percent AIAC and 2.8 percent CIAC (Schedule JCM-1, Column [A], lines 30-40). A pro forma capital structure for the scenario in JCM-1, Column [C], is composed of 0.8 percent short-term debt, 31.8 percent long-term debt and 65.5 percent equity.

Encumbrance

A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

Conclusion and Recommendations

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable. However, no "used and useful" determination of the proposed projects was made and no particular treatment should be inferred for rate making or rate base purpose in the future.

Staff further concludes that issuance of debt financing in the amount of \$440,000 and for the purposes (a storage tank and 8-inch main line extension) recommended by Staff in this report is within Oak Creek's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$440,000 pursuant to a loan agreement with WIFA.

Staff further recommends that the Commission authorize Oak Creek to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with the WIFA loan.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2013.

¹ Contributions in Aid of Construction less Amortization of Contributions in Aid of Construction.

Staff further recommends authorizing Oak Creek to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Oak Creek file with Docket Control as a compliance item in this docket by May 31, 2012, a copy of the Certificate of Approval of Construction issued by Arizona Department of Environmental Quality for the proposed capital improvements.

Staff further recommends that one copy of executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

Staff recommends that the Company file, within 120 days of the effective date of the order in this matter, a letter verifying that the Company has contacted the FAA regarding the solar power project and the result of any discussions with the FAA regarding the project.

FINANCIAL ANALYSIS

Selected Financial Information

| | [A] ¹ <u>6/30/2010</u> | | [B] ² <u>Pro Forma</u> | | [C] ³ <u>Pro Forma</u> | |
|---|--------------------------------------|--------|--------------------------------------|--------|--------------------------------------|--------|
| 1 Operating Income | -\$15 | | -\$15 | | -\$15 | |
| 2 Depreciation & Amort. | \$49,701 | | \$49,701 | | \$49,701 | |
| 3 Income Tax Expense | \$0 | | \$0 | | \$0 | |
| 4 | | | | | | |
| 5 Interest Expense | \$0 | | \$59,493 | | \$28,712 | |
| 6 Repayment of Principal | \$0 | | \$22,721 | | \$10,965 | |
| 7 | | | | | | |
| 8 | | | | | | |
| 9 | | | | | | |
| 10 | | | | | | |
| 11 DSC | | | | | | |
| 12 [1+2+3] ÷ [5+6] | N/M | | 0.60 | | 1.25 | |
| 13 | | | | | | |
| 14 | | | | | | |
| 15 | | | | | | |
| 16 | | | | | | |
| 17 Capital Structure | | | | | | |
| 18 | | | | | | |
| 19 Short-term Debt | \$0 | 0.0% | \$22,721 | 1.3% | \$10,965 | 0.8% |
| 20 | | | | | | |
| 21 Long-term Debt | \$0 | 0.0% | \$888,985 | 49.5% | \$429,035 | 32.4% |
| 22 | | | | | | |
| 23 Common Equity | \$884,992 | 100.0% | \$884,992 | 49.3% | \$884,992 | 66.8% |
| 24 | | | | | | |
| 25 Total Capital | \$884,992 | 100.0% | \$1,796,698 | 100.0% | \$1,324,992 | 100.0% |
| 26 | | | | | | |
| 27 | | | | | | |
| 28 Capital Structure (inclusive of AIAC and Net CIAC) | | | | | | |
| 29 | | | | | | |
| 30 Short-term Debt | \$0 | 0.0% | \$22,721 | 1.2% | \$10,965 | 0.8% |
| 31 | | | | | | |
| 32 Long-term Debt | \$0 | 0.0% | \$888,985 | 48.8% | \$429,035 | 31.8% |
| 33 | | | | | | |
| 34 Common Equity | \$884,992 | 97.2% | \$884,992 | 48.6% | \$884,992 | 65.5% |
| 35 | | | | | | |
| 36 Advances in Aid of Construction ("AIAC") | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% |
| 37 | | | | | | |
| 38 Contributions in Aid of Construction ("CIAC") ⁴ | \$25,643 | 2.8% | \$25,643 | 1.4% | \$25,643 | 1.9% |
| 39 | | | | | | |
| 40 Total Capital (Inclusive of AIAC and CIAC) | \$910,635 | 100.0% | \$1,822,341 | 100.0% | \$1,350,635 | 100.0% |
| 41 | | | | | | |
| 42 | | | | | | |
| 43 AIAC and CIAC Funding Ratio⁵ | 2.8% | | 1.4% | | 1.9% | |
| 44 (36+38)/(40) | | | | | | |
| 45 | | | | | | |
| 46 | | | | | | |

¹ Column [A] reflects financial information as of June 30, 2010.

² Column [B] reflects the issuance of a \$911,706, 20-year amortizing loan at 6.60 percent and equity at June 30, 2010.

³ Column [C] reflects the issuance of a \$440,000 20-year amortizing loan at 6.60 percent and equity at June 30, 2010.

⁴ Net CIAC balance (i.e. less: accumulated amortization of contributions).

⁵ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

MEMORANDUM

DATE December 9, 2010

TO: Juan Manrique
Public Utility Analyst

FROM: Dorothy Hains, P. E. *DH*
Utilities Engineer

RE: **Application of Oak Creek Water No. 1 For Approval of Authority To Issue Long Term Promissory Notes Or Bonds And Other Evidence of Indebtedness Docket No. W-01392A-09-0273**

Introduction and Background

On May 29, 2009, Oak Creek Water Company No. 1 ("Oak Creek" or "the Company") filed with the Arizona Corporation Commission ("ACC") a financing application requesting approval to enter into certain loan agreements. On January 12, 2010, the Company filed an amended scope of work and updated project cost estimates. The Company increased its funding request to \$871,076. On March 31, 2010, the Company filed to correct its funding request to \$911,706. The funds requested would be used for: (1) installation of a new 116,000 gallon storage tank at its Airport Reservoir site and 300 gallon per minute ("GPM") upgrade to the existing Airport Transfer booster pump station; (2) installation of 8-inch main to connect the new tank to the Panorama reservoir site; (3) installation of pressure relief valve to serve the Saddlerock and Mingus Mountain area; (4) installation of solar system to serve the Company's well sites, tank sites and the office; and, (5) installation of Supervisory Control And Data Acquisition ("SCADA") at six different locations within the Company service area. The first three additions listed above and identified as 1, 2 and 3 are listed again in the table below under the heading Project #1 Floating System.

Location of System

The Company is located west of the City of Sedona ("City") near Sedona Municipal Airport in Yavapai County. The Company serves an area approximately 1 square mile in size that includes a portion of Sections 12 and 13 of Township 17 North and Range 5 East.

System Analysis

The Company owns and operates a water system that consists of three wells with a capacity of 530 GPM, four storage tanks with a 362,000 gallon total storage capacity and distribution system serving approximately 720 metered customers at the end of 2009. The system is also interconnected to the Arizona Water Company's Sedona system. Based on water

usage data between January 2009 and December 2009, Oak Creek has adequate production and storage to serve its existing customers base plus reasonable growth. The new storage tank and mains that the Company proposes to construct if the subject loan is approved are necessary to provide domestic service and fire protection to existing and future customers.¹ Therefore, Staff concludes that Project #1 Floating System should be given priority over the Solar and SCADA Projects if funding is limited (the Solar and SCADA Projects are listed as Project #2 and Project #3, respectively, in the table below). The calculated water loss for the Oak Creek water system was 8.1 per cent, which is within acceptable limits.

Arizona Department of Environmental Quality ("ADEQ") Compliance Status

ADEQ regulates the Oak Creek water system under Public Water System ("PWS") Number 13-041. Staff received a compliance status report from ADEQ dated June 3, 2009, in which ADEQ stated that PWS No.13-041 has no major deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance Status

The Company is not in any ADWR Active Management Area. Staff received a Compliance Status Report from ADWR for Oak Creek Water Company No. 1 on September 1, 2009. ADWR reported that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

ACC Compliance Status

A check of the ACC Utilities Division Compliance database showed that the Company currently has no delinquent compliance items.

Breakdown of Project Cost Estimate

The Company has estimated a total construction cost and funding amount of \$911,706. A general description and breakdown of the funding amount requested is as follows:

| Project Description | Location | Company's Estimated Cost (\$) |
|---|---|-------------------------------------|
| Project #1 Floating System | | |
| Install a 116,000 gallon storage tank (@ \$1.03/gal) | Airport reservoir site | 120,000 |
| Install 8-inch, 900-ft main (@ \$85/ft) | Connecting Airport reservoir and Panorama reservoir | 76,500 |
| Install a Pressure Reducing Valve ("PRV") (@\$10,000/unit) | Main between Saddlerock and Mingus Mountain area | 10,000 |

¹ See Application filed on May 29, 2009, Page 1, starting at Line 18 ½.

| | | |
|--|--|----------------|
| Install a 300 GPM booster pump (@ \$60,000/unit) | Airport Transfer Booster Pump Station | 60,000 |
| Install 1,300 ft of 6-inch main(@ \$85/ft) | | 110,500 |
| Subtotal | | 377,000 |
| 25% Engineering and Contingencies | | 94,250 |
| Total | | 471,250 |
| | | |
| Project #2 Backup Power (Solar Power Generators) | | |
| Solar Panel @ 90 Oak Creek Blvd (Office site) | | |
| M190-72-240 (module #20ND-210U1) solar panel | | 21,080 |
| Labor cost | | 2,900 |
| Engineering cost | | 900 |
| Contingency cost | | 800 |
| Subtotal | | 25,680 |
| Solar Panel @ 680 Sunset Dr. (Well #4 Site) | | |
| PVP30K-480 (module #231ES-A-210) solar panel | | 226,000 |
| Labor cost | | 36,500 |
| Engineering cost | | 4,500 |
| Contingency cost | | 16,000 |
| Subtotal | | 283,000 |
| Solar Panel @ 677 Panorama Blvd (Tanks Site) | | |
| PVI-13 KW (module #72 NT-175U1) solar panel | | 61,750 |
| Labor cost | | 13,450 |
| Engineering cost | | 2,400 |
| Contingency cost | | 5,000 |
| Subtotal | | 82,600 |
| Solar Panel @ 137 Shrine Rd (Sedona Airport Site) | | |
| PVP5300 (module #27 NT-175U1) solar panel | | 24,200 |
| Labor cost | | 4,620 |
| Engineering cost | | 1,200 |
| Contingency cost | | 1,000 |
| Subtotal | | 31,020 |
| | | |
| Total | | 422,300 |
| | | |
| Project #3 Replace Telemetry System with SCADA System | | |
| four Model 803s (including Control Channel RTU with 8 digital, 2 analog, 1 electronic key reader input and 3 remote controllable relay outputs) @ \$1,995/unit | Well #4, Well #2/Well #3 Site, Panorama Tanks Site & Sedona Airport Site | 7,980 |
| four M800 Series Data Service Packages (Level 1 real time continuous monitoring of all alarms and analog signals) @\$563.4/unit | Well #4, Well #2/Well #3 Site, Panorama Tanks Site & Sedona Airport Site | 2,253.6 |
| one Model 113 (including Control Channel RTU with 8 digital, 2 analog, 1 electronic key reader input and 3 remote controllable relay outputs) @ \$1,995/unit | Airport pressure tank site | 1,195 |
| one M110 Series Data Service Package (Level 1 | Airport pressure tank site | 347.40 |

| | | |
|--|---|----------------|
| real time continuous monitoring of all alarms and analog signals) @\$347.4/unit | | |
| three Pulse board adaptors with 2 inputs @ \$100/unit | | 300 |
| two Tank & Well control packages @ \$1,250/unit | | 2,500 |
| two 0-16 ft submersible level sensors & 40' of electric isolated, oil sealed cables @ \$695/unit | | 1,390 |
| five ELK interposing relays(10 Amps, 12 VDC coil SPDT form C contacts) @ \$35/unit | Well #4 site, Well #2/Well #3 site, Panorama Tanks Site, Sedona Airport Site & Airport pressure tank site | 175 |
| one new account set-up | | 250 |
| Shipping charge | | 125 |
| Start-up & Training Assistance | | 1,650 |
| Subtotal | | 168,166 |
| | | |
| Total | | 911,706 |

Staff concludes that the Company's proposed water system additions are appropriate and the cost estimates presented above are reasonable for purposes of this financing request. However, no "used and useful" determination of the proposed project items was made and no particular treatment should be inferred for rate making or rate base purpose in the future.

The ultimate financing amount recommended by Staff will be dependant upon Staff's financial analysis. In the event the amount recommended in Staff's financial analysis is not sufficient to complete all three of the projects listed above, Staff recommends that Project #1 Floating System be given first priority.

Approval of Construction

Staff recommends that the Company file with Docket Control as a compliance item in this docket by May 31, 2012, copies of the ADEQ Certificates of Approval of Construction ("AOC") for the proposed Project #1 "Floating System".

Solar Panel Project at the Sedona Airport

The solar panels for this project will be located in close proximity to the airport runway and hangars which could create a glare hazard for pilots. As a result, prior to any construction Federal Aviation Administration ("FAA") project review and approval may be necessary. Staff recommends that the Company file within 120 days of the effective date of the order in this matter a letter verifying that the Company has contacted the FAA regarding this project and the result of any discussions with the FAA regarding the project.

Summary

I. Conclusions

1. ADEQ reported that the Oak Creek water system has no major deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. A check of the ACC Utilities Division Compliance database showed there were no delinquent compliance items for the Company.
4. Staff concludes that the proposed projects are appropriate and the cost estimates presented herein are reasonable for purposes of this financing request. However, no "used and useful" determination of the proposed project items was made and no particular treatment should be inferred for rate making or rate base purpose in the future.
5. Based on water usage data between January 2009 and December 2009, Oak Creek has adequate production and storage to serve its existing customers base plus reasonable growth. The new storage tank and mains that the Company proposes to construct, if the subject loan is approved are necessary to provide domestic service and fire protection to existing and future customers.

II. Recommendations

1. In the event the amount recommended in Staff's financial analysis is not sufficient to complete all three of the projects listed above, Staff recommends that Project #1 Floating System be given first priority.
2. Staff recommends that the Company file with Docket Control as a compliance item in this docket by May 31, 2012, copies of the ADEQ AOC Certificates for the proposed Project Number 1 "Floating System".
3. Staff recommends that the Company file within 120 days of the effective date of the order in this matter a letter verifying that the Company has contacted the FAA regarding this solar power project and the result of any discussions with the FAA regarding the project.

AFFIDAVIT OF PUBLICATION**PUBLIC NOTICES**

REVISED PUBLIC NOTICE OF
AN APPLICATION FOR AN ORDER
AUTHORIZING THE ISSUANCE OF
PROMISSORY NOTES AND OTHER
EVIDENCE OF INDEBTEDNESS
FOR OAK CREEK WATER
COMPANY NO.

On May 29, 2009 Oak Creek Water Co. No. 1 filed an Application with the Arizona Corporation Commission ("Commission"), on March 31, 2010 the Applicant filed an amendment to the Application for an order authorizing Applicant to issue \$911,706 of long term debt for the purpose of funding construction of certain facilities necessary to provide solar power, domestic and fire protection to its existing and future customers at the mandated pressures and volumes. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's offices at 90 Oak Creek Blvd, Sedona, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervener and of any person upon whom service of documents is to be made if different than the intervener.

2. A short statement of the proposed intervener's interest in the proceeding.

3. Whether the proposed intervener desires a formal evidentiary hearing on the application and the reasons for such a hearing.

4. A statement certifying that a copy

PUBLIC NOTICES

of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice. If you have any questions or concerns about this application or have any objections to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.

Publish: April 14, 2010.

STATE OF ARIZONA)
) ss.
COUNTY OF YAVAPAI)


I, ROBERT B. LARSON, Publisher of the
SEDONA RED ROCK NEWS,

a newspaper of general circulation, printed
and published in the County of Yavapai,
State of Arizona, do solemnly swear that a
copy of the attached notice, in the matter of

Revised Public Notice
Oak Creek Water Company

as per clipping attached, was published in the
regular and entire section of said newspaper,
and not in any supplement thereof, on the
following schedule:

April 14, 2010.



ROBERT B. LARSON, Publisher

Subscribed and sworn to before me this

14 day of April, 2010.



Notary Public

